



Office of the Chair
Tel. 604 432-6215 Fax 604 451-6614

APR 23 2019

File: CR-12-01
Ref: RD 2019 Mar 29

Mayor Mike Hurley and Council
City of Burnaby
4949 Canada Way
Burnaby, BC V5G 1M2

Dear Mayor Hurley and Council:

Re: Office Development in Metro Vancouver's Urban Centres – 2018 Update

On behalf of Metro Vancouver Board of Directors, I am pleased to provide you with a copy of Metro Vancouver's "Office Development in Metro Vancouver's Urban Centres – 2018 Update"* for your reference.

*Available in Clerks Office

At its March 29, 2019 regular meeting, the Board of Directors of the Metro Vancouver Regional District (Metro Vancouver) received for information the report titled "Office Development in Metro Vancouver's Urban Centres – 2018 Update" and adopted the following resolution:

That the MVRD Board:

- a) receive for information the consultant report attached to the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update";*
- b) endorse the recommendations for Metro Vancouver as set out on page 5 of the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update", with the addition of the following:*
 - "8. Further to recommendations #2, #4, and #5, specifically outline the tools and best practices member municipalities can utilize to foster a greater share of office development in Regional City Centres; and*
 - 9. Metro Vancouver to take a leadership role in targeting a greater proportion of office development across all Regional City Centres and prepare a robust strategy to assist municipalities in meeting the employment goals in regional context statements, through a review of Regional Growth Strategy policy measures."; and*
- c) distribute the report to member jurisdiction Councils for information.*

Actions to encourage office development in Urban Centres and areas well served by transit are key elements of *Metro Vancouver 2040: Shaping our Future (Metro 2040)*, the regional growth strategy. Regional policy direction in Metro 2040 responds to office projects developed outside of Urban Centre locations, such as in suburban office parks, which can have negative impacts on land use transportation patterns in the region.

Referred to: Planning and Development Committee (2019.04.30)

29139262

Copied to: City Manager, Dir. Corporate Services, Director Planning and Building

The 2018 *Office Development in Metro Vancouver's Urban Centres Report* is an update to the 2015 Office Development Inventory. It explores the factors that influence where office development locates in the region, the challenges and opportunities for locating office in the region's network of Urban Centres, and the issues and trends in office space to better inform government plans and policies. It is intended to be a resource for local governments, office developers, and others with an interest in encouraging office development in Urban Centres.

As of the end of 2018, the region had about 80 million square feet of office space located in close to 1,400 buildings larger than 10,000 square feet. Nearly 90% of that office space is located within Urban Centres, or within 400 metres of frequent bus or 800 metres of rapid transit service. The report identifies recent office development growth including low vacancy rates, market trends toward proximity to transit as well as significant growth in co-working facilities and open space office design, and provides an overview of current and future considerations for office development.

We hope this inventory provides useful information as you continue to strive to attract office development in your respective communities. Government policies, tools and economic development initiatives can influence office development decisions, and participation by all of us is required to successfully support new office development in Urban Centres and transit oriented locations across the region. We welcome the opportunity to continue to work with you in this regard.

If you have any questions, please contact Gord Tycho, Senior Planner, Regional Planning, by phone at 604-456-8805 or by email at Gord.Tycho@metrovancover.org.

Yours sincerely,



Sav Dhaliwal
Chair, Metro Vancouver Board

SD/CM/NC/gt

Encl: Report dated March 8, 2019, titled "Office Development in Metro Vancouver's Urban Centres – 2018 Update" (Doc #28955738)

To: MVRD Board of Directors

From: Regional Planning Committee

Date: March 8, 2019

Meeting Date: March 29, 2019

Subject: **Office Development in Metro Vancouver's Urban Centres – 2018 Update**

REGIONAL PLANNING COMMITTEE RECOMMENDATION

That the MVRD Board:

- a) receive for information the consultant report attached to the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update";
 - b) endorse the recommendations for Metro Vancouver as set out on page 5 of the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update", with the addition of the following:
 - "8. Further to recommendations #2, #4, and #5, specifically outline the tools and best practices member municipalities can utilize to foster a greater share of office development in Regional City Centres; and
 9. Metro Vancouver to take a leadership role in targeting a greater proportion of office development across all Regional City Centres and prepare a robust strategy to assist municipalities in meeting the employment targets in regional context statements, through a review of Regional Growth Strategy policy measures."; and
 - c) distribute the report to member jurisdiction Councils for information.
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At its March 8, 2019 meeting, the Regional Planning Committee considered the attached report titled "Office Development in Metro Vancouver's Urban Centres – 2018 Update", dated February 6, 2019. The Committee considered the on-table correspondence (Attachment 2) and subsequently amended the recommendation as presented above in underline style.

Metro Vancouver staff note that the use of the term "targets" in No. 9 under recommendation b) in the amendment above should be replaced with the term "projections" to be consistent with the interpretation of employment numbers included in *Metro 2040* and in municipal regional context statements which are projections – or anticipated numbers based on a set of assumptions and trends – rather than targets.

This matter is now before the Board for its consideration.

Attachment

1. "Office Development in Metro Vancouver's Urban Centres – 2018 Update", dated February 6, 2019
2. Correspondence dated March 7, 2019 from the City of Coquitlam addressed to the Regional Planning Committee, regarding Office Development in Metro Vancouver's Urban Centres

To: Regional Planning Committee

From: Gord Tycho, Senior Planner, Regional Planning

Date: February 6, 2019 Meeting Date: March 8, 2019

Subject: **Office Development in Metro Vancouver's Urban Centres – 2018 Update**

RECOMMENDATION

That the MVRD Board:

- a) receive for information the consultant report attached to the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update";
 - b) endorse the recommendations for Metro Vancouver as set out in the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update"; and
 - c) distribute the report to member jurisdiction Council for information.
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PURPOSE

To provide the Regional Planning Committee and MVRD Board with the 2018 Office Development in Metro Vancouver's Urban Centres report.

BACKGROUND

The 2018 Office Development in Metro Vancouver's Urban Centres (Office Development) report is an update to the previous report completed in 2015. It explores the factors that influence regional-scale office development and occupancy decisions, identifies challenges and opportunities for office potential in Metro Vancouver's Urban Centres, and identifies key issues and trends affecting office space.

METRO VANCOUVER 2040 CONTEXT

Office space accommodates the growth of businesses and employment within Metro Vancouver's local communities and broader region. Office space is built by developers that respond to the market signals of demand and supply and changes to the local, provincial, national and, in some cases, international economies.

The Metro Vancouver region is forecast to grow by approximately one million people and four hundred thousand jobs by 2041. To protect the region's ability to attract investment and jobs, *Metro Vancouver 2040: Shaping Our Future (Metro 2040)*, the regional growth strategy, establishes regional land use designations and overlays. Office and commercial uses are directed to Urban Centres and Frequent Transit Development Areas, generally located on lands designated General Urban.

The 26 Urban Centres identified by *Metro 2040* are intended as priority locations for employment and services, higher density housing, commercial, cultural, entertainment, institutional, and mixed-uses. Urban Centres are intended to emphasize place-making, an enriched public realm, and promote transit-oriented communities, where transit, cycling, and walking are the preferred modes of transportation. The regional policy direction of *Metro 2040* also responds to office projects developed

outside of Urban Centre locations, such as in suburban office parks, which can have negative impacts on land use and transportation patterns for the region.

UPDATED OFFICE DEVELOPMENT REPORT

A planning consultant, Eric Aderneck, was contracted by Regional Planning to complete an update of the Office Development report that was published in 2015. The purpose of the Office Development report is to explore the factors that influence regional-scale office development and occupancy decisions, identify challenges and opportunities for office potential in Metro Vancouver's Urban Centres, and to identify the key issues and trends affecting office space with a view to better informing government plans and policies with respect to office development in the region.

Methodology and Key Questions

Given that no single source can accurately capture the complexities of office space trends and characteristics throughout the region, the updated data used in the report was obtained by undertaking:

- a review of relevant publications;
- the compilation of a Metro Vancouver regional office building inventory¹; and,
- in-depth interviews with key industry participants, including investors, developers, brokers, and municipal staff.

The key research questions explored in the Office Development report are:

- What are the regional trends for office development location?
- What are the benefits of locating office space within/outside of urban centres, respectively?
- How are office market trends evolving? and
- What tools do governments have to support office development in urban centres?

Office Market Profile and Regional Characteristics

The Metro Vancouver market, according to industry publications, has approximately 65,000,000 sq.ft. of office inventory² and a range of different business sectors. Approximately 8% is defined as Class AAA³ (top quality), 77% is Class A and B (average quality), and 16% is Class C. Lands designated General Urban by *Metro 2040*, which are intended to accommodate a wide variety of land uses (including commercial), hold 76% of the office inventory in the region. The remainder is located on a variety of *Metro 2040* land use designations, most of which is Mixed Employment (21%). Most office spaces (88%) are located within either Urban Centres or within 400 metres of the Frequent Transit Network bus network or within 800 metres of a rapid transit service. The 17 designated Municipal Town Centres contain relatively limited amounts of office space (i.e. 6% of the region's total).

¹ Office Building Inventory includes all buildings in the region with a minimum 10,000 sq.ft. of office space.

² Office Building Inventory totals 80,000,000 sq.ft., as it also includes smaller / institutional buildings.

³ Office Class is a function of the quality and location of the accommodation.

Sub-regional Characteristics

Compared to other North American markets, the Metro Vancouver market has fewer large head offices and has many smaller-sized office tenants. Each of the regional sub-markets has its own characteristics, i.e.:

- Vancouver (specifically the Central Business District in downtown and surrounding “core”) is the business centre for the region and province. Significant numbers of businesses also locate along the Broadway Corridor. Vancouver contains 58% of the region’s office market;
- Burnaby represents the next largest market (16%) for office space, with a considerable amount being in the Metrotown area; and
- Surrey (8%), Richmond (8%), North Shore (4%), New Westminster (3%), Langley (2%), and Coquitlam (1%) respectively comprise the remainder of the region’s office market inventory.

Office Vacancy Rates

Office vacancy rates in Metro Vancouver have declined over the past three years, to approximately 5% (Q3 2018), and may approach record lows in the near future. Vacancy rates in all of the markets have been dropping and that trend is expected to continue as leasing opportunities diminish. Downtown Vancouver is anticipated to continue with one of the lowest rates seen in North America.

Office Lease

Lease rates have climbed sharply in markets that have space in high demand. Lease rates in downtown Vancouver, already among the highest in Canada, increased in 2018 and are expected to continue to rise through 2019. Lease rates in downtown Vancouver for Class AAA space were averaging \$48 per sq.ft. (late 2018) versus \$34 per sq.ft. (2014). Growth of lease rates in the suburban markets has been smaller. Tenants seeking large blocks of space will likely need to pre-lease space in the next wave of development or backfill space vacated by tenants who relocate.

New Office Supply

A number of major office development projects are currently underway in the region. The largest wave of new downtown Vancouver office development will have 4.3 million sq.ft. of space delivered by 2022, an almost 20% increase to the current downtown inventory. In the rest of the region, there is another 1 million sq.ft. currently anticipated for delivery between 2020 and 2022.

Office Tenant Considerations

Office tenants are not all the same and variation is observed in business types, accommodation needs, and local characteristics. Some tenants require locations in downtown Vancouver, some serve their local community, and others prefer a business park environment. Some accommodation criteria include: business objectives, space design, amenities, financial, and access.

Office Developer Considerations

The office development process is complex, capital intensive, and high risk. Large office buildings (towers) are constructed all at once (with few exceptions), making the supply of new space very “lumpy”. Conversely, low rise buildings can be built and leased in phases to match demand.

There are many different factors that can impact the development viability of sites and the potential for an office component on that site, including: land availability, land cost, construction cost, municipal approvals, and application process cost. The market is the main driver for office building viability. If demand is weak, there will be limited new office space developed. Local government plans directing office space to specific locations will likely not be realized if the market demand does not support that endeavour.

Office Development from a Municipal Perspective

Office development provides space for businesses, which helps to advance municipal objectives such as growing the economy and employment, reducing commuting distances, creating complete communities, and complementing local amenities. Municipal governments, through their economic development and planning functions, can encourage and regulate development in their communities, including directing office development to Urban Centre locations.

Government policies and tools, such as fiscal tools and density bonuses, may have a minor impact on influencing office development decisions in the face of market demand. The regional office market is limited and grows incrementally; downtown Vancouver and the more urban areas of the region are unique sub-markets, making it challenging to attract office development to other Urban Centres throughout the region.

Headquarters and Other Trends

Metro Vancouver has a relatively limited corporate headquarter presence compared to the other cities, adjusted for population. Other noted trends in the Office Development report include:

- There has been significant growth in the tech sector, with large companies occupying large blocks of office space, premium accommodations, and amenities in downtown Vancouver;
- Tenants increasingly prioritize access to rapid transit service and urban amenities. That said, some tenants still prioritize cost and highway accessible areas outside Urban Centres;
- The demand from a range of tenants for space and lease flexibility is being met by the significant growth in co-working facilities;
- Strata development projects are rising relative to conventional lease tenure. The former can make non strata and lease development financially unviable by driving up residual land prices; and
- There is a continued trend towards open concept office with more attention being paid to design to encourage collaboration and achieve space efficiencies.

Future Considerations for Office in Urban Centres

The consultant report identifies a range of future considerations for Metro Vancouver, member jurisdictions and the development community to support the location of office development in Urban Centres. The issues most consistently expressed in interviews and supported by research, and which should be addressed in the shorter term with a relatively high potential for effectiveness, include:

- **Land Use Planning** - Encourage, but not mandate, mixed-use projects with office components. Rather, allow market demand to inform the supply of office development in specific locations.

- **Zoning Definition** - Allow general office uses, rather than overly specific and limiting types of office business uses, which can reduce tenanting flexibility and thus increase risk for office developers.
- **Tenant Permits** - Shorten and simplify the permitting process for basic improvements needed when new office tenants occupy a premise and operate a business.
- **Development Approval Process** - Streamline the development review and approval process, reduce the uncertainties and risks, and manage municipal charges and fees to encourage office development.
- **Municipal Incentives** - Explore financial or regulatory incentives to encourage office development in specific locations.
- **Research** – Undertake further relevant research and prepare case studies, best practices and innovation profiles on topics such as mixed-use development; e.g. identify opportunities to integrate office space into mixed-use projects, and also identify where office components are warranted (or not).

RECOMMENDATIONS FOR METRO VANCOUVER

The consultant's report outlines a number of priority actions based on the research and the interviews undertaken in the process of completing the report. The actions are summarized in terms of those directed to Metro Vancouver, member jurisdictions, developers, and other organizations to encourage and facilitate office development in Urban Centres.

Of the identified actions, staff recommend that the following subset be supported by Metro Vancouver to guide ongoing efforts to encourage office development in Urban Centres:

1. Encourage the Regional Context Statements of member jurisdictions, as they are updated, to include supportive plans and policies that direct investment and encourage office development in Urban Centre locations over out-of-centre locations;
2. Work with member jurisdictions and other stakeholders to consider new policy directions that support the goal of attracting office development to Urban Centres;
3. Continue to collect and share data, statistics and other information resources about Urban Centres that may be of use to the planning efforts of member jurisdictions, business investors, developers and tenants (e.g. update the inventory of office buildings in the region and the Office Development in Metro Vancouver's Urban Centres report regularly);
4. Continue to research and share information on best practices and case studies regarding new and innovative ways that various levels of government and the private sector encourage office development in Urban Centres;
5. Consider new or strengthened policies in *Metro 2040* that better encourage or require office development in Urban Centres as part of the Urban Centre and Frequent Transit Development Area policy review project currently underway;
6. Work closely with TransLink to continue to provide and improve transit infrastructure that supports office and job growth in Urban Centres and, where appropriate, new or improved service to existing office parks that may not be currently well-served with transit; and
7. Continue to support more coordination on economic development issues at the regional level by: collecting, analyzing and sharing data; undertaking research; and convening member jurisdictions to share challenges, opportunities and research in an effort to support and supplement efforts at the municipal level.

In addition, municipalities may find the information and recommendations directed to them to be useful, and as a result, staff are recommending the report be distributed to member jurisdictions.

ALTERNATIVES

That the MVRD Board:

- a) receive for information the consultant report attached to the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update";
 - b) endorse the recommendations for Metro Vancouver as set out in the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update"; and
 - c) distribute the report to member jurisdiction Council for information.
2. That the MVRD Board receive for information the report dated February 6, 2019, titled "Office Development in Metro Vancouver's Urban Centres - 2018 Update".

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

SUMMARY / CONCLUSION

Office space accommodates the growth of businesses and employment within Metro Vancouver's local communities and broader region. The Office Development in Metro Vancouver's Urban Centres report is an update to the previous report completed in 2015. It explores the factors that influence regional-scale office development and occupancy decisions, identifies challenges and opportunities for office potential in Metro Vancouver's Urban Centres, and identifies key issues and trends affecting office space

The Metro Vancouver market has approximately 65,000,000 sq.ft. of office inventory and a range of different business sectors, with the City of Vancouver containing the majority of the inventory. While office vacancy rates are declining and are now at approximately 5% which is approaching historic lows, a number of major office development projects are currently underway in the region, with most delivery anticipated between 2020 and 2022. The decisions surrounding the development of office space are complex, capital intensive, and high risk, involving factors such as land availability and cost, construction cost and municipal approvals. Government policies, tools and economic development initiatives can influence office development decisions, but the participation by all stakeholders is required to achieve success.

In consideration of the recommendations from the consultant report, staff are recommending that a subset of actions be undertaken by Metro Vancouver to support the efforts of member jurisdictions in encouraging office development in Urban Centres. As a result, staff recommend Alternative 1, that the MVRD Board endorse the recommendations set out in the staff report, and distribute the consultant report to member jurisdictions for information.

Attachment: Office Development in Metro Vancouver's Urban Centres, dated January 2019
(orbit doc #28488422)